

Message Text

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ORIGIN EB-07

INFO OCT-01 ISO-00 IO-10 AF-06 ARA-06 EA-07 EUR-12 NEA-10

AGR-05 CEA-01 CIAE-00 COME-00 DODE-00 FRB-03 H-02

INR-07 INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05

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L/EB:PTRIMBLE

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R 191851Z NOV 75

FM SECSTATE WASHDC

TO AMEMBASSY OSLO

INFO AMEMBASSY COPENHAGEN

AMEMBASSY BONN

AMEMBASSY HELSINKI

AMEMBASSY LONDON

AMEMBASSY ROME

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TAGS: ETRD, GATT, EEC, EFTA, NO

SUBJECT: PROPOSED NORWEGIAN DUTY AND TAX CHANGES ON
MOTOR VEHICLES

REF: OSLO 4891

1. BASIC PROBLEM WITH PROPOSED ELIMINATION OF NORWEGIAN DUTY ON EC/EFTA ORIGIN VEHICLES IS THAT IT DERIVES FROM NORWAY/EC FREE TRADE AGREEMENT (FTA) WHICH PROGRESSIVELY ABOLISHES DUTIES BETWEEN BOTH PARTIES, THEREBY INTRODUCING PREFERENTIAL ARRANGEMENT WITH EC WHICH EFFECTIVELY RESULTS IN DISCRIMINATION AGAINST THIRD COUNTRY SUPPLIERS. THE NORWAY-EC FTA WAS NOTIFIED TO THE GATT UNDER ARTICLE XXIV. ALTHOUGH THE U.S. SERIOUSLY QUESTIONED THE CONSISTENCY OF ALL EC/EFTA FTAS WITH THE GATT ON ACCOUNT OF THEIR RESTRICTIVE RULES OF ORIGIN AND EXCLUSION OF AGRICULTURAL PRODUCTS, THE REPORTS OF THE WORKING PARTIES FORMED TO STUDY THE GATT ISSUES WERE INCONCLUSIVE. IN THE ABSENCE OF A CLEARER RULING ON UNDERLYING ISSUE - CONSISTENCY OF NORWAY/EC FTA WITH GATT - WE BELIEVE IT BEST NOT TO RAISE ELIMINATION OF TARIFF, WHICH ARGUABLY CONFORMS TO MANDATE OF GATT ARTICLE XXIV.

2. WITH RESPECT TO THE PROPOSED CHANGES IN METHOD OF TAXATION, WE RECOGNIZE THEY OBVIOUSLY WILL HAVE THE EFFECT OF PLACING U.S. IMPORTS AT A FURTHER PRICE DISADVANTAGE THAN AT PRESENT, AND ENLARGE THE DIFFERENCE BETWEEN THE MARKET PRICE OF U.S. AND EC/EFTA CARS. HOWEVER, THE NEW RATES APPLY TO ALL IMPORTS IRRESPECTIVE OF ORIGIN ON A CIF BASIS, THAT IS, WITHOUT INCLUDING THE DUTY IN THE TAXABLE BASE. THE PROPOSED INCLUSION OF THE COST OF TIRES IN, AND THE ELIMINATION OF THE "TRAFFIC" TAX FROM, THE TAXABLE CIF PRICE-BASE ACTUALLY IMPROVES NORWAY'S COMPLIANCE WITH GATT ARTICLE VII, PARAGRAPHS 2(A) AND 3, RESPECTIVELY. THIS CREATES DIFFICULTY IN ESTABLISHING A CONCLUSIVE LEGAL CLAIM OF DISCRIMINATION. HOWEVER, WE BELIEVE THE APPLICATION OF A PROGRESSIVE TAX BASED ON PRICE RESULTS IN AN ARBITRARY TAX STRUCTURE WHICH EFFECTIVELY LIMITED OFFICIAL USE

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SINGLES OUT U.S. CARS (GENERALLY MORE EXPENSIVE) FOR DISCRIMINATORY TREATMENT. WE HAVE ARGUED THAT RELATED INTERNAL TAXES (PROGRESSIVE FRENCH, ITALIAN, AND BELGIUM ROAD USE TAXES) CONSTITUTE NON-TARIFF-BARRIERS.

3. STRATEGY. SINCE U.S. CARS HAVE RECENTLY BEEN MORE PRICE COMPETITIVE, THE U.S. HOPES THE IMPACT OF THE PROGRESSIVE TAX WILL NOT FURTHER EXACERBATE

THE ADVANTAGE EC/EFTA CARS WILL HAVE IN NORWAY DUE TO DUTY ELIMINATION. IN VIEW OF UNCERTAINTY OF LEGAL CASE AND RELATIVELY GREATER JAPANESE INTEREST, WE BELIEVE EMBASSY SHOULD ALLOW JAPANESE TO TAKE LEAD IN FORMALLY PROTESTING MEASURE. EMBASSY SHOULD, HOWEVER, REGISTER OUR CONCERN WITH APPROPRIATE NORWEGIAN AUTHORITIES, POINTING OUT THAT PROPOSED LEGISLATION RESULTS IN DISCRIMINATION, CONSTITUTES A NON-TARIFF BARRIER, AND IS OBVIOUSLY AIMED AT REDIRECTING SOURCES OF SUPPLY IN MANNER THAT AFFECTS U.S. EXPORTERS WITH LARGE FREIGHT COSTS, AND GENERALLY HIGHER BASE PRICE VEHICLES. EMBASSY SHOULD STRESS THAT WHILE GATT CONSISTENCY OF NORWAY'S ASSERTED RIGHT TO INCREASE DOMESTIC TAX AS VENUE OFFSET IS NOT CLEAR, BASIS ON WHICH THIS IS NOW PROPOSED (65-110) CLEARLY HAS ADVERSE EFFECT ON U.S. EXPORTS. SINGLE TAXATION BASE WOULD BE MORE EQUITABLE TO U.S. AND WOULD DEMONSTRATE SINCERE EFFORT ON PART OF NORWEGIANS TO MINIMIZE DISCRIMINATORY IMPACT OF ANY NEW TAX MEASURES IT IS CONTEMPLATING.

4. APPROPRIATE ELEMENTS OF FOREGOING APPROACH MAY BE USED IN RESPONDING TO AMC COMPLAINT TO SHOW U.S. CONCERN WITH POTENTIAL DISADVANTAGES TO CONUS SUPPLIERS. KISSINGER

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